

## Message Text

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ACTION EA-09

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INFO AMCONSUL NAHA

AMEMBASSY TOKYO

AMCONSUL FUKUOKA

AMCONSUL SAPPORO

UNCLAS OSAKA KOBE 2538

E.O. 11652: N/A

TAGS: EIND, BGEN

SUBJECT: COOPERATION AGREEMENT AMONG JAPAN'S "BIG THREE"  
SPINNERS

SUMMARY: JAPAN'S THREE LARGEST SPINNING COMPANIES HAVE ANNOUNCED A PLAN TO COOPERATE IN PRODUCTION AND MARKETING OF THEIR COTTON AND WOOL PRODUCTS. THESE THREE OSAKA FIRMS CONTROL 15 PERCENT OF COTTON AND 12 PERCENT OF WOOL YARN PRODUCTION CAPACITY IN JAPAN. MOVE MAY FURTHER WORSEN COMPETITIVE POSITION OF SMALLER COMPANIES SOME OF WHOM ARE TALKING ABOUT POSSIBLE FAIR TRADE COMMISSION ACTION AGAINST OLIGOPOLY IN SOME PRODUCTS. MOVE IS NOT EXPECTED TO HAVE MUCH EFFECT IF ANY ON JAPANESE EXPORTS TO U.S. IT IS DESIGNED NOT TO MEET EAST ASIAN COMPETITION HEAD ON BUT RATHER TO DEVELOP MORE SOPHISTICATED, FASHIONABLE, HIGHER VALUE ADDED PRODUCTS. END SUMMARY.

AT JOINT PRESS CONFERENCE HELD AT OSAKA HEAD OFFICE OF TOYOBO CO., LTD. MORNING DECEMBER 15, 1975, THE PRESIDENTS OF JAPAN'S "BIG THREE" SPINNING COMPANIES, TOYOBO CO., LTD., KANEBO LTD. AND UNITIKA LTD., OFFICIALLY ANNOUNCED THAT THREE COMPANIES ON DECEMBER 5 CONCLUDED 7-POINT TRIPARTITE TIE-UP AGREEMENT FOR COTTON AND WOOL SPINNING. AGREEMENT CALLS FOR: 1) COOPERATION IN THE MODERNIZATION AND RATIONALIZATION  
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OF PRODUCTION: 2) POSSIBLE INTEGRATION OF SOME PRODUCTION

FACILITIES; 3) JOINT RESEARCH AND DEVELOPMENT; 4) EX-CHANGE OF TECHNICAL KNOW-HOW AND INFORMATION; 5) JOINT USE OF DISTRIBUTION CHANNELS; 6) COORDINATION OF "ORDERLY EXPORT"; AND 7) MUTUAL ASSISTANCE IN OVERSEAS BUSINESS VENTURES.

THE AGREEMENT WOULD BE EXTENDED TO MANMADE FIBERS IF PRESENT EFFORTS ARE SUCCESSFUL. DETAILED PLANS FOR EXECUTION OF AGREEMENT WILL BE WORKED OUT BY A COMMITTEE TO BE ORGANIZED SOON BY MANAGING DIRECTORS OF THE THREE COMPANIES. PRESIDENT ICHII OTANI OF TOYOCO HAS CALLED ON SMALLER TEXTILE MANUFACTURERS TO PARTICIPATE IN THE AGREEMENT OR FOLLOW ITS LINES; PRESIDENT JUNJI ITO OF KANEBO STATED THAT THE AGREEMENT REPRESENTS A JOINT EFFORT BY THE THREE COMPANIES TO ACHIEVE STRUCTURAL REFORM WITHOUT RELYING TOTALLY ON GOVERNMENT GUIDANCE AND AID; AND PRESIDENT SHINROKURO KODERA OF UNITIKA COMMENTED THAT THE AGREEMENT WOULD SERVE TO STRENGTHEN THE INTERNATIONAL COMPETITIVE POSITION OF THE THREE SIGNATORIES.

COMMENT LOCAL INFORMED SOURCES BELIEVE AGREEMENT IS SIGNIFICANT BECAUSE LARGE SHARE OF JAPANESE PRODUCTION CAPACITY REPRESENTED: (15 PERCENT FOR COTTON AND 12 PERCENT FOR WOOL). THEY SEE THE AGREEMENT AS A FIRST STEP BY THE "BIG THREE" TOWARD STRUCTURAL REFORM OF THE RECESSION-STRICKEN JAPANESE TEXTILE INDUSTRY AS A WHOLE.

THE AGREEMENT STEMS FROM BELIEF OF "BIG THREE" THAT PRESENT UNRESTRICTED INFLUX OF TEXTILE IMPORTS FROM DEVELOPING COUNTRIES; LARGE SURPLUS CAPACITY; FIERCE SALES COMPETITION BOTH AT HOME AND ABROAD; AND COMPLEX, WASTEFUL DOMESTIC DISTRIBUTION SYSTEMS MAKE IT IMPOSSIBLE FOR INDIVIDUAL COMPANIES TO SURVIVE. MOVE FOLLOWS LARGE DEFICITS IN THE SEMI-ANNUAL BUSINESS YEAR ENDED SEPTEMBER 30, 1975: YEN16.9 BILLION FOR TOYOCO, YEN14.4 BILLION FOR UNITIKA AND YEN12.6 BILLION FOR KANEBO. SMALLER TEXTILE MANUFACTURERS FEAR THAT "BIG THREE" AGREEMENT MAY PUT THEM INTO EVEN WORSE COMPETITIVE POSITION. A MANAGING DIRECTOR OF ONE SUCH FIRM SAID, "THE BIG THREE MAY PROCEED DOWN ROAD LEADING TO OLIGOPOLY OF SPECIFIC PRODUCTS, LEAVING US FAR BEHIND THEM." SOME HOPE THE FAIR TRADE COMMISSION WILL INTERVENE IN THE

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AGREEMENT WHICH THEY TERM A MINI-CARTEL. MANY OBSERVERS DOUBT AGREEMENT CAN BE SMOOTHLY CARRIED OUT. THE MANAGING DIRECTOR OF ONE OF JAPAN'S LARGEST TRADING COMPANIES COMMENTED TO US THAT THE TIE-UP OF THE THREE COMPANIES IS EASIER SAID THAN DONE. THE 90-YEAR RIVALRY AMONG THE THREE, ESPECIALLY AMONG MIDDLE AND LOW-ECHELON STAFF, MAY FRUSTRATE THE ARRANGEMENT AS WAS THE CASE WITH A SIMILAR ARRANGEMENT AMONG

TEIJIN LTD., UNITIKA AND KAEBO IN 1966; OR THAT  
BETWEEN TOKYOBO AND MITSUBISHI RAYON IN 1972.  
MOST SOURCES BELIEVE THE AGREEMENT WILL HAVE  
LITTLE OR NO IMPACT ON JAPANESE TEXTILE EXPORTS TO U.S.  
OR ON THE U.S. JAPAN TEXTILE AGREEMENT ESPECIALLY IN THE LIGHT OF  
ITS PROVISION FOR "ORDERLY EXPORT". THE MOST IMPORTANT  
ISSUE IS HOW TO CURB TEXTILE IMPORTS FROM DEVELOPING  
COUNTRIES WITHOUT CAUSING FRICTION WITH THEM, THEY  
EMPHASIZED. IN THIS REGARD, THEY ASSERT THAT THE  
"EXCHANGE OF TECHNICAL KNOW-HOW AND INFORMATION" NA  
"JOINT RESEARCH AND DEVELOPMENT ACTIVITIES" WILL PAVE  
THE WAY FOR PRODUCTION OF MORE SOPHISTICATED, HIGH-  
FASHION, HIGHER VALUE-ADDED, TEXTILE GOODS THAT WILL  
NOT COMPETE WITH DEVELOPING COUNTRY PRODUCTS.  
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